

Submission by the Federal Democratic Republic of Ethiopia on behalf of the Least Developed Countries Group on the Operationalization of Article 6, paragraph 2 of the Paris Agreement

22 March 2017

Ethiopia on behalf of the Least Developed Countries welcomes this opportunity to submit its view on, inter alia, the elements to be addressed, including their operationalization, in the guidance referred to in Article 6, paragraph 2 of the Paris Agreement, overarching issues, and relationships between Article 6, paragraph 2, and other provisions of the Paris Agreement, the Convention and its related legal instruments, as relevant.

It is the view of the Least Developed Countries that any system developed under Article 6.2 for the use of internationally transferred mitigation outcomes (ITMOs) must ensure that the system is consistent with the objective of the Paris Agreement, in particular Article 2 (a) which states:

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.

To meet this objective there are certain requirements that should be met in any system associated with ITMOs. These include, but are not limited to, the following elements, which are in no order of significance:

1. **Net reduction in emissions:** Any arrangement for the use of ITMOs must result in a net reduction in emissions. It must not simply be a transfer of mitigation obligations. To meet the net reduction requirement all ITMOs transferred under this arrangement must be discounted in the context of emission reduction units¹. One system of discounting would be to set a certain percentage of transferred units to be cancelled after the transaction.
2. **Quantified Emission Reductions:** Only emissions reductions included in nationally determined contributions (NDC) that are quantified and measured against an absolute reduction determined by a base year or base line shall be eligible under an ITMO system. This means that NDCs or sectors within NDCs that are based on non-quantifiable or relative targets such as relative to BAU or relative to GDP, or those that set a range target or peaking year would not be eligible under the ITMO arrangement. For Parties to be eligible to use ITMOs they must establish a 5-year accounting system based around a 5-year quantified cap on emissions.
3. **Centralized Oversight:** A system of transfer of ITMOs shall be operated by centralized oversight. As such an ITMO centralized oversight mechanism should be established. The purpose of the centralized oversight mechanism would be to ensure that transfers are based on a

¹ Each ITMO unit shall be equal to one tonne of CO₂ equivalent

rigorous, robust and transparent common accounting framework. All ITMO transactions must pass through and be approved by the central oversight mechanism before they can be eligible to be used to meet a Party's obligation under Article 6 and for the use in calculating a Party's NDC. The centralized oversight mechanism would be operated by the Secretariat under the guidance of a Board.

4. **Limiting Access to Ensure Environmental Integrity:** The centralized oversight mechanism may establish a list of sectors that are eligible under the ITMO system. Such list would select sectors that are quantifiable and easy to measure, provide lasting emission reductions, are beyond business as usual actions, and fulfil the necessary accounting system and rights requirements as defined in this submission.
5. **Ensuring Transparency:** All ITMO transactions shall be maintained within national registries that are publicly accessible. Each Party shall establish a national designated authority to oversee all transactions to ensure environmental integrity and transparency of the system. Transactions recorded by the centralized oversight mechanism shall also be publicly accessible. Accounting systems, including the use of blockchain or other forms of distributed ledger technology must be open source and accessible to the public. There should be a public release of ITMO transfers in a standard format.
6. **Good Governance:** Each participating Party shall ensure that they have an effective system of governance in place to manage their contribution to the ITMO system. Such system of governance should provide guarantees of best practice, transparency and accountability under legislation. Such standards of good governance shall aim to give assurance to those engaged in the ITMO system that individual national systems meet the highest standard and quality.
7. **Principle of Completeness:** As part of the high standard of national governance ITMO systems should ensure the principle of completeness. In this respect all assets, liabilities and equity interests are properly recorded. All debits and credits transferred under the ITMO system shall be recorded and clear reports of assets and liabilities clearly articulated.
8. **Principle of Existence:** In furthering the aim of good governance, the principle of existence should apply. All assets, liabilities and equity interests within the ITMO system must exist and be independently verified.
9. **Principle of Valuation:** In addition other good governance approaches, the principle of valuation should apply. All assets, liabilities and equity interests in the ITMO system shall be included as appropriate units and any resulting valuation or allocation adjustments are appropriately recorded. Units cannot be created from nothing or from counterfactual baselines.

10. **Meeting Rights and Obligations:** A good governance approach must also ensure that all rights and obligations are met. Any entity that holds rights or controls assets associated with ITMOs must guarantee control over such assets and liabilities.
11. **Right to Decline Access:** The centralized oversight mechanism may decline access to the ITMO system if it is found that a Party or entity or entities governed by such a Party do not meet appropriate good governance standards.
12. **Avoidance of Double Counting:** To avoid double accounting all Parties that intend to transfer or acquire ITMOs must maintain a national registry of ITMO units. All transactions must be approved by the centralized oversight mechanism. All transactions would be recorded by the centralized oversight mechanism. Any ITMO transaction must be only counted once. Therefore a traded unit must be recorded in both the national registries of the selling and acquiring Parties. The selling Party must record the transaction as a negative contributor to their nationally determined contribution.
13. **Avoidance of Fraudulent Trading:** All efforts must be made to eliminate fraudulent trading. Each Party that wishes to engage in ITMO transactions shall have effective anti-fraud legislation and effective auditing procedures. The centralised oversight mechanism would need to be assured that such national legislation is in place before it would be able to authorise any transactions of the respective Party. To assist in avoiding fraudulent and opaque transactions, secondary markets in ITMOs would not be permitted. A Party or the centralized oversight mechanism may refer a matter to the compliance mechanism established under Article 15 if there are suspicions of fraudulent activity in the ITMO system.
14. **Resource Shuffling Prohibited:** All transfer of ITMOs must be based on real emission reductions. Resource shuffling, such as any plan of scheme or artifice that trades in credits that are not directly due to emission reductions. Before being eligible to trade in ITMO units, a Party would need to show to the centralized oversight mechanism that such trade did not make use of resource shuffling.
15. **Contribution to Higher Ambition:** Consistent with Article 6.1 the ITMO system should contribute to higher ambition. Subsequently, as part of the 5-year stocktake cycle, the centralized oversight mechanism shall have the authority to review a Party's transactions over the 5-year period and determine whether the use of the ITMOs system has contributed to higher ambition. Those that do not meet the requirements of this review would not be eligible to use the ITMO system in the subsequent 5-year cycle.
16. **Ensuring Price Stability and Predictability:** To ensure that the ITMO system delivers measurable emission reduction outcomes and promotes

renewable energy and energy efficiency technologies, the centralized oversight mechanism shall apply controls over the price of ITMO units. The centralized oversight mechanism may choose to manage the supply of ITMO units so as to prevent over-supply and price volatility. Such management may include the establishment of a market stability reserve.

17. **Do Not Infringe Rights:** To be consistent with various preamble paragraphs of the Paris Agreement, any trading in ITMO units shall ensure that such actions shall respect, promote and consider inter alia, obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity. Furthermore the use of the IMTO system shall ensure the integrity of all ecosystems.
18. **Capacity Building:** All efforts should be made to build the capacity of Parties so that they can effectively participate in any ITMO system.
19. **Share of Proceeds:** All ITMOs transactions should be subject to a “share of proceeds” arrangement whereby a certain percentage of traded units would be reserved and paid into a centralised account maintained by the Central Oversight Mechanism to be used for funding adaptation activities. The centralized account would be a holding account for transfer to the Adaptation Fund, originally established under the Kyoto Protocol and through a decision authorised to operate under the Paris Agreement.
20. **Referral to Compliance Mechanism:** The centralised oversight mechanism or any Party may refer a matter to the compliance mechanism for consideration and necessary action, if there is any concern that a Party or entity entrusted with the use, record or transfer use of internationally transferred mitigation outcomes, is acting in a manner that is not consistent with the provisions above.
21. **Evaluation and Review:** As part of the global stocktake under Article 14 of the Paris Agreement a regular evaluation and review of the ITMO system shall be undertaken and appropriate changes made. The centralised oversight mechanism may also make recommendations for changes for consideration Parties to the Paris Agreement at any time.

The Least Developed Countries give their full assurance to participate in discussions and negotiations under Article 6.2 in a constructive manner.